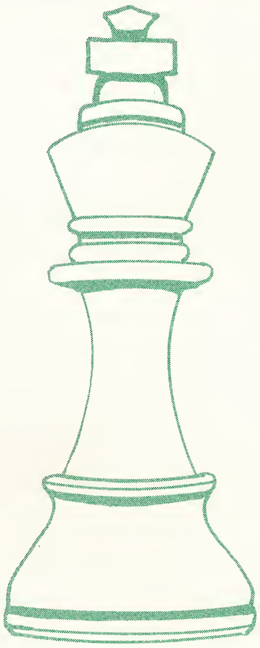
charitable contributions

wise 1972 year-end tax moves



by CONRAD TEITELL, LL.B., LL.M.

Prepared for
THE GARNET CIRCLE
Swarthmore College
Swarthmore, Penna. 19081

your securities are a good investment and will continue to appreciate. Imaginative planning enables you to retain the same ownership in the corporation while reducing your future taxes if your securities appreciate even more.

> *Example:* Instead of making his planned $10,000 gift with money, Leland contributes his listed securities in XYZ corporation which cost him $4,000 and are now worth $10,000. He receives a $10,000 deduction and completely avoids tax on the $6,000 appreciation. With the $10,000 cash (which he initially intended to contribute) he buys XYZ corporation stock in the market. He now has the same stock ownership in XYZ corporation; but his securities have a cost-basis of $10,000 instead of $4,000. If the securities are worth $13,000 three years from now, his gain on a sale will only be $3,000 ($13,000 sales price minus $10,000 new cost). If he keeps his original securities and donates the money instead, his gain on a sale is $9,000 ($13,000 sales price minus $4,000 original cost). Leland furthers the work of our institution by his $10,000 gift. There is no tax to Leland or our institution if we sell the securities.

Please write or call. We hope that this booklet has given you helpful ideas for year-end tax planning and alerted you to some of the many ways in which you can help our institution. We would like to give you additional information about charitable gifts and discuss with you and your advisors the most advantageous ways to make them.

others, are restricted in the percentage of ownership they may have in businesses of their founders and certain others and are required to file new detailed reports with the Federal government.

These and other restrictions have led a number of foundations to conclude that it will be too expensive and burdensome to continue and they have decided to dissolve. If this is your case, we will be pleased to discuss with you and your advisors how the philanthropic aims of your foundation can be continued by transferring your foundation's assets on dissolution to our institution. The name of the foundation and family members can be memorialized.

GIFT OF MONEY

Generally, extra tax benefits are obtained by contributing appreciated securities instead of money (see page 6). However, many donors have their investments in savings banks and do not have appreciated property to contribute. For those donors, there are many advantages to contributing money. The first benefit, of course, is the satisfaction of seeing the good work your gift will do. Second, the Federal government rewards your generosity by giving you a charitable deduction on your income tax return for your cash gift. The tax savings reduce the cost of your gift. Your out-of-pocket cost is the amount of your contribution minus your tax savings.

> *Example:* Phillips contributes $1,000 to our institution. He is in the 25% income tax bracket. His $1,000 contribution deduction saves him $250 in taxes. His out-of-pocket cost is $750.

The new tax law increases the ceiling on deductibility for gifts of money from 30% to 50% of adjusted gross income (with a five year carryover for any "excess") when the recipient is a school, church, hospital or other publicly supported charity.

YOUR 1972 CHARITABLE GIFT AND LONG RANGE TAX PLANNING

As noted, if you have appreciated securities, it is generally better to contribute them instead of money. And this is so, even if you believe

CHARITABLE CONTRIBUTIONS
WISE 1972 YEAR-END TAX MOVES

The end of the year is usually a time of taking stock. You anticipate the future, as well as review the events of the past year. Many donors decide how and when to contribute to educational, religious, hospital, health, welfare and other charitable organizations.

Your desire to help support our work is the most important factor you consider in planning a gift to our institution. Then you will want to plan your gift to take maximum advantage of the Federal government's encouragement — by way of the charitable contribution deduction and other tax savings—of gifts to our institution. Wise planning includes selecting the best time as well as the best type of property to contribute. This booklet tells about a number of taxwise 1972 year-end gifts.

GREATER TAX SAVINGS FOR 1972 GIFTS

If you will be in a higher tax bracket this year than next year, taxes will be saved by (where possible) taking some of next year's deductions this year—and deferring some of this year's income to next year.

The charitable contribution deduction is the easiest deduction to take this year rather than next year because the timing is entirely within your control. You, at your option, can make your gift this year or next year. If you have been planning on making a charitable gift in the future, you can get extra tax savings by making your gift by December 31, 1972 (when you expect your tax bracket to be higher this year than next).

> *Example:* This year Wayne's top tax bracket is 50%. He estimates that next year his top tax bracket will be 30%. A $5,000 charitable contribution this year will save him $2,500 in taxes. The same charitable gift next year will save $1,500 in taxes. Wayne saves an additional $1,000 by making his gift this year.

Your tax bracket could be higher this year than next (other things being equal) for these reasons:

1. Impending retirement. You plan to retire next year. Taxable income is often lower after retirement because — (1) pension income is often lower than salary; (2) when you become 65 and retire you get an additional $750 personal exemption (also an additional $750 personal exemption for a spouse when she becomes 65); (3) your Social Security payments will be tax-free; and (4) you may qualify for the retirement income credit.

2. You had an unusually good year in business and, thus, your tax bracket will be higher this year than next.

3. You had a large capital gain on a sale of securities or other assets this year and your tax bracket is below 50%. One-half of the gain will be included in your taxable income and you will be in a higher tax bracket this year than next.

4. You sold securities or took money from your savings account this year and invested the proceeds in tax-exempt bonds. The dividends on the securities and the interest on the savings account were taxable. The tax-exempt income you will receive will put you in a lower tax bracket next year.

The rule that you will obtain higher tax savings by taking your charitable deduction this year rather than next year (if you will be in a higher tax bracket this year) also applies to your other deductions — e.g., taxes, allowable medical expenses, etc. Not all of your deductions can be accelerated, however. Here are some that can:

Real estate taxes, state and local income taxes. Explore the possibility of prepaying your 1973 real estate taxes this year to get the deduction in 1972. State and local income taxes can often be prepaid—that is, you can pay the fourth installment of your 1972 state and local income taxes (generally due January 15, 1973) by the end of this year. You can then deduct these taxes on your 1972 federal income tax return.

Medical expenses. If you have medical bills which you have not yet paid, consider paying them this year rather than waiting until next

to the cost-basis plus ½ of the appreciation. The same gift when made directly to a school, church, hospital or other publicly supported charity is deductible at its full present fair market value.

> *Example:* LaSalle makes a gift to his own private foundation of securities which cost him $60,000 a number of years ago and which are now worth $100,000. His charitable deduction on his gift to his own foundation is limited to $80,000 ($60,000 cost-basis plus ½ of $40,000 appreciation). The same gift to a publicly supported charity generates a $100,000 charitable deduction.

The ceiling on deductibility. Contributions to schools, churches, hospitals and other publicly supported charities are deductible—depending on the type of gift—up to 30% or 50% of adjusted gross income, with a five year carryover for any part of the gift not deductible this year. Contributions to private foundations are limited to 20% of adjusted gross income—with no five year carryover for any "excess."

Making gifts directly to publicly supported charities. The new rules for gifts to private foundations make it desirable in many cases to contribute directly to publicly supported charities rather than contribute to your own private foundation and then later have your foundation make charitable gifts to publicly supported charities.

Under an exception, appreciated property gifts to your private foundation do qualify for the same deduction and ceiling allowed direct gifts to public charities if your foundation gives an amount equal to all long-term appreciated property gifts to public charities within 2½ months following the year of receipt by your foundation. Then the gifts are deductible by you at the full fair market value and qualify for the higher adjusted gross income ceiling and the five year carryover.

New taxes and restrictions on private foundations. Private foundations are now subject to a 4% tax on their income, are subject to minimum pay-out requirements, are prohibited from dealing with their founders and certain